



November 1, 2016

Proposed Resolution W-5114

Agenda ID: 15289

To: All Interested Persons

Enclosed is Proposed Resolution W-5114 of the Water Division, which Del Oro Water Company, Arbuckle District which authorizes a decrease in revenues of \$12,844 or -16% for Test Year 2016. Proposed Resolution W-5114 is scheduled to appear on the December 1, 2016 Commission Meeting Agenda (ID #15289).

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on Proposed Resolution W-5114 via email to Water.Division@cpuc.ca.gov on or before **November 21, 2016**. Please reference **"Proposed Resolution W-5114"** in the subject line.

Interested persons must also serve a copy of their comments on the utility on the same date that the comments are submitted to the Water Division. If email is unavailable, please submit comments to:

California Public Utilities Commission
Water Division
505 Van Ness Avenue
San Francisco, CA 94102

Comments should focus on factual, legal, technical errors, or policy issues in the proposed resolution.

Persons interested in receiving comments submitted may contact the Water Division at Water.Division@cpuc.ca.gov or (415) 703-1133. Please reference "Proposed Resolution W-5114."

/s/ RAMI S. KAHLON

Rami S. Kahlon, Director
Water Division

Enclosures: Proposed Resolution W-5114
Certificate of Service
Service List

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5114

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RESOLUTION

(RES. W-5114) DEL ORO WATER COMPANY, ARBUCKLE DISTRICT. ORDER AUTHORIZING A DECREASE IN REVENUES OF \$12,844 OR -16% FOR TEST YEAR 2016.

By Advice Letter 454, filed June 8, 2016.

SUMMARY

Del Oro Water Company filed Advice Letter 454 on June 8, 2016, requesting authority under Rule 7.6.2 of General Order 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to decrease rates for water service by \$11,337, or -14.54%, from current revenues in Test Year 2016. This resolution grants a general rate decrease of \$12,844, or -16%, using a Rate of Return (ROR) of 10.10% for Test Year 2016.

BACKGROUND

Del Oro Water Company (DOWC), a Class B water utility, has requested authority under Rule 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to decrease its water rates by \$11,337 or -14.54% for Test Year 2016 in its Arbuckle District. The purpose of the rate decrease is to provide an adequate rate of return, adjust its operating expenses, and reconfigure its rate design. DOWC's request shows 2015 gross revenues of \$77,994 at present rates and estimates a decrease to \$66,657 at proposed rates. DOWC also requests a rate of return of 10.10% for its Arbuckle District.

DOWC's Arbuckle District's (AD) present rates became effective on April 14, 2016, by approval of Advice Letter (AL) 445, which authorized a Consumer Price Index rate increase.

DOWC's AD serves approximately 56 residential metered rate customers in the

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Almond Ranch Estates, approximately one mile southwest of the town of Arbuckle, in Colusa County, California.

NOTICE AND PROTESTS

In accordance with GO 96-B, AL 454 was served on June 8, 2016, on adjacent utilities and persons on the general service list. A notice regarding the general rate increase was mailed to each customer on June 20, 2016.

DOWC received three protests: two of them on June 23, 2016 and a third on July 7, 2016. The protests took issue with the increase in rates. DOWC responded to all three protests stating that the request is for a rate decrease and not an increase.

DOWC also explained in its responses that the request is for an overall decrease in its present revenues, of -14.54%. This decrease is due to a change in the rate design so that the proposed rates rebalance the portion collected in the Readiness-To-Serve (RTS) versus Water Quantity (WQ) rate¹. The previous rates were based on both flat and metered rate estimates, but meters were recently installed in the Arbuckle district in the summer of 2015, so DOWC recorded one year of metered water usage. The proposed rate rebalancing is a direct result of having actual metered usage history to rely on. Therefore, the service charge or RTS is proposed to decrease while the WQ or quantity charge is proposed to increase. The percentage change on each individual customer's bill will vary significantly depending on their individual water use. Low water users will see a decrease in their monthly bills, while high water users may see an increase.

The protests also referred to a past emergency well repair caused by a service outage, which was already addressed and explained to DOWC's customers at the last public meeting on July 30, 2015. Another protest referred to a complaint on low pressure in the system and DOWC offered to take pressure readings to address this complaint.

¹ The Readiness to Serve is also known as the meter service charge. The Water Quantity Rate is the volumetric charge for the amount of water used per customer.

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DISCUSSION

The Water Division (Division) made an independent analysis of DOWC AD's rate decrease request. Appendix A shows DOWC's and the Division's estimates of the summary of earnings at present, proposed, and recommended rates. Appendix A also shows the difference in DOWC's and the Division's estimates in revenues. DOWC was informed of the Division's views on revenues, expenses, and rate base and agrees with the Division's findings.

The Division reviewed operating revenues and expenses, including employee labor, materials, contract work, water testing, transportation expenses, and other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent. Material differences between the Division and DOWC's estimates are discussed below:

OPERATING EXPENSES

DOWC used the following two methods to estimate its operating expenses. The first method takes the average of the previous three years of recorded expenses and then adds to the average the current Consumer Price Index inflation factor² (CPI) for 2016. The second method involves using an allocation method for specific costs that are shared among some districts of DOWC. These allocations were applied to employee labor and benefits, transportation expense, office and management salaries, office supplies & expenses, professional services and insurance. Since DOWC serves multiple districts using the same employees, DOWC uses cost allocation factors and applies it to each of the costs mentioned above. The cost allocation factors used for Arbuckle are based only on 7 districts of DOWC's which consist of 5,700 customers³. The Division staff reviewed DOWC's cost allocation method for the costs listed above and verified that DOWC adequately applied the correct allotment to Arbuckle.

² Consumer Price Index from the United States Department of Labor: Bureau of Labor Statistics.

³ The cost allocation factor is derived by taking the number of AD's customers, or 56, and dividing it by the total number of customers from seven of DOWC's districts, or 5,700.

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Purchased Power

DOWC proposes purchased power expenses of \$8,892 for TY 2016 (Power Schedule A-1 TOU⁴). DOWC AD's actual purchased power for the last three years is \$7,464.69 for 2013, \$9,084.77 for 2014, and \$8,997.74 for 2015, respectively. The Division recommends an amount of \$8,516 for purchased power using a three year average since the three year average conforms to DOWC's average water consumption amounts.

General Expense

DOWC estimates \$2,312 for general expenses. This expense consists of all other expenses not included in any other operating expense. Typical expenses under General Expenses include advertising, subscriptions, collection agency fees, water association dues, United States Environmental Protection Agency (USEPA) Lab Fees, and the State Water Resources Control Board's fees. However, the State Water Resources Control Board fees have not been approved to be increased yet, but DOWC anticipates the fees to go up this year. The Division estimates and recommends an amount of \$1,186 based on a three-year average of general expenses and disallowing the increase in SWRCB fees, as the increase has not been approved yet.

Rate of Return and Rate Design

DOWC requests a 10.10% ROR for its Arbuckle District for TY 2016. The Division's Finance Unit finds it reasonable and recommends that 10.10% be considered in the determination of the ROR for DOWC's outstanding GRCs, which the Division also recommends for DOWC's Arbuckle District.

As shown in Appendix A, the Summary of Earnings for TY 2016, as a result of application of the recommended rate of return, rate base, and operating expenses, the Division recommends a decrease from present rates of \$12,844 or -16%, rather than DOWC's proposed decrease of \$11,337, or -14.54%.

Arbuckle's current rate structure consists of one schedule: Schedule No. AR-2, Residential Metered Service. At the Division's recommended rates shown in Appendix B, the monthly bill for a residential customer using 40 Ccf (One Ccf equals 100 cubic

⁴ Pacific Gas and Electric Company, Electric Schedule A-1, Small General Service tariff.

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feet) of water with a 1- inch meter will decrease from \$132.90 to \$126.79, which is -\$6.11 or -4.60%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

SAFETY

The resolution provides adequate revenues to the utility so that it can provide safe and reliable water service to its customers. The water served by the utility meets all applicable primary water quality standards set forth by the State Water Resources Control Board, Division of Drinking Water.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft Resolution was mailed to the utility and protesters and made available for public comment on November 1, 2016.

FINDINGS

1. Del Oro Water Company (DOWC) requests authority under Section 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to decrease its rates by \$11,337 or -14.54% in Test Year 2016 for its Arbuckle District.
2. The purpose of the rate decrease is to provide an adequate rate of return, adjust its operating expenses, and reconfigure its rate design after recording one year of metered residential service for its customers in the Arbuckle District.

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3. The present rates became effective on April 14, 2016 by approval of Advice Letter (AL) 445, which authorized a Consumer Price Index rate increase.
4. The Division recommends a decrease from present rates of \$12,844 or -16% based on its review of DOWC's operating expenses and revenues.
5. The Summary of Earnings (Appendix A) recommended by the Water Division is reasonable and should be adopted.
6. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
7. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
8. The water served by Del Oro Water Company, Arbuckle District, meets all applicable primary water quality standards set forth by the State Water Resources Control Board, Division of Drinking Water

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THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Arbuckle District, to file a supplemental Advice Letter with the revised Rate Schedule attached to this Resolution as Appendix B and to concurrently cancel its presently effective Rate Schedule,. Schedule No. AR-2, Residential Metered Service. The effective date of the revised rate schedule shall be five days after the date of its filing.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 1, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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APPENDIX A

DEL ORO WATER COMPANY ARBUCKLE DISTRICT Summary of Earnings - Test Year 2016

A		B	Utility Requested	Branch Estimated	
No	Item	Present Rates	Proposed Rates	<u>Present</u>	<u>Proposed</u>
Operating Revenues					
1	460 Flat rates	\$ -	\$ -	\$ -	\$ -
2	470 Metered rates	\$ 77,994	\$ 66,657	\$ 77,994	\$ 65,150
3	462 Private fire protection				
4	TOTAL REVENUE	\$ 77,994	\$ 66,657	\$ 77,994	\$ 65,150
5	Operating Expenses				
6	610 Purchased water	\$ -	\$ -		
7	615 Purchased power	\$ 8,892	\$ 8,892	\$ 8,892	\$ 8,516
8	618 Other volume related	\$ 327	\$ 327	\$ 327	\$ 327
9	630 Employee labor	\$ 4,361	\$ 4,361	\$ 4,361	\$ 4,361
10	640 Materials	\$ 308	\$ 308	\$ 308	\$ 308
11	650 Contract work	\$ 591	\$ 591	\$ 591	\$ 591
12	660 Transportation expense	\$ 1,079	\$ 1,079	\$ 1,079	\$ 1,079
13	664 Other plant maintenance	\$ -	\$ -	\$ -	\$ -
14	670 Office salaries	\$ 4,536	\$ 4,536	\$ 4,536	\$ 4,536
15	671 Management salaries	\$ 801	\$ 801	\$ 801	\$ 824
16	674 Employee pension & benefits	\$ 2,051	\$ 2,051	\$ 2,051	\$ 2,051
17	676 Uncollectibles	\$ 75	\$ 75	\$ 75	\$ 74
18	678 Office services & rentals	\$ 811	\$ 811	\$ 811	\$ 780
19	681 Office supplies & expense	\$ 2,667	\$ 2,667	\$ 2,667	\$ 2,667
20	682 Professional services	\$ 104	\$ 104	\$ 104	\$ 104
21	684 Insurance	\$ 1,801	\$ 1,801	\$ 1,801	\$ 1,801
22	688 Regulatory commission expense	\$ 333	\$ 333	\$ 333	\$ 333
23	689 General expenses	\$ 2,312	\$ 2,312	\$ 2,312	\$ 1,186
24	SUBTOTAL	\$ 31,049	\$ 31,049	\$ 31,049	\$ 29,538
25	403 Depreciation	\$ 8,736	\$ 8,736	\$ 8,736	\$ 8,736
26	408 Taxes other than income	\$ 789	\$ 789	\$ 789	\$ 789
27	409/10 Income taxes	\$ 8,425	\$ 5,872	\$ 5,872	\$ 5,872
28	Total Deductions	\$ 48,999	\$ 46,447	\$ 46,446	\$ 44,935
29	Net Revenue	\$ 28,995	\$ 20,210	\$ 31,548	\$ 20,215
30	Rate Base	\$ 200,097	\$ 200,097	\$ 200,097	\$ 200,097
31	Rate of Return (Net Revenue/Rate Base)	14.490%	10.10%	15.77%	10.10%

END OF APPENDIX A

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APPENDIX B

DEL ORO WATER COMPANY ARBUCKLE DISTRICT

Schedule No. AR-2 RESIDENTIAL METERED SERVICE Arbuckle District Test Year 2016

Applicability

Applicable to all metered rate residential water service.

Territory

The subdivision known as Almond Ranch Estates and vicinity, approximately five miles north of Arbuckle in Colusa County, California.

Rates

	<u>Per Meter Per Month</u>	
Quantity Rate:		
For all water delivered per 100 cu. ft.	\$ 2.233	(R)
Service Charge:		
For 5/8 x 3/4 inch meter	\$ 14.99	(I)
For 3/4 inch meter	\$ 22.48	
For 1 inch meter	\$ 37.47	
For 1-1/2 inch meter	\$ 74.94	
For 2 inch meter	\$ 119.91	
For 3 inch meter	\$ 224.83	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

END OF APPENDIX B

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APPENDIX C

DEL ORO WATER COMPANY Test Year 2016

COMPARISON OF RATES

METERED SERVICE	Per Service Connection Per Year		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/8 x 3/4 - inch meter	\$33.00	\$14.99	-18.01%
For 3/4 - inch meter	\$49.49	\$22.48	-27.01%
For 1 - inch meter	\$82.50	\$37.47	-45.03%
For 1-1/2 - inch meter	\$164.98	\$74.94	-90.04%
Quantity Charge:			
All water, per 100 cu. ft.	\$1.260	\$2.233	56.43%

Comparison of a monthly typical bill for residential metered customers with a 1 – inch meter is shown below at the current rates and recommended rates for Test Year 2016.

Usage 100 cu. ft.	Present Rates	Recommended Rates	Percent Increase
0	\$ 82.50	\$ 37.47	\$ (45.03) -55%
30	\$ 120.30	\$ 104.46	\$ (15.84) -13%
40	\$ 132.90	\$ 126.79	\$ (6.11) -5%
50	\$ 145.50	\$ 149.12	\$ 3.62 2%
60	\$ 158.10	\$ 171.45	\$ 13.34 8%

END OF APPENDIX C

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APPENDIX D

DEL ORO WATER COMPANY ARBUCKLE DISTRICT ADOPTED QUANTITIES TEST YEAR 2016

1. Purchased Water Cost	\$0
2. Purchased Power Cost	\$8,516
 3. Payroll	
Employee Labor	\$4,361
Office Salaries	\$4,536
Management Salaries	\$824
 5. Taxes Other Than Income	\$789
6. Service Connections Meter Size	
5/8 x 3/4"	0
3/4"	0
1"	56
1 1/2"	0
<hr/>	
Total	56

Adopted Tax Calculation:

1. Operating Revenues	\$65,150
2. Expenses	\$29,538
3. Depreciation	\$8,736
4. Property Taxes	N/A
5. Taxable Income for State Tax	\$62,823
6. State Tax (8.84%)	\$2,228
7. Taxable Income for FIT	\$22,971
8. Federal Tax	\$3,446

END OF APPENDIX D

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CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Resolution No. W-5114 on all parties in these filings or their attorneys as shown on the attached lists.

Dated November 1, 2016 at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Water Division, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

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DEL ORO WATER COMPANY ARBUCKLE DISTRICT ADVICE LETTER NO. 454 SERVICE LIST

California Public Utilities Commission
Office of Ratepayer Advocates
ora@cpuc.ca.gov

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